



A Study of Account Payable and Account Receivable at Novotel Chennai Chamiers Road

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Abstract

This research explores the complexities of managing accounts payable and accounts receivable at Novotel Chennai Chamiers Road, with the goal of offering a thorough insight into their financial operations. The study includes an analysis of the company's procedures, policies, and performance in handling its payables and receivables. Utilizing a mix of qualitative and quantitative methods, such as interviews, financial statement evaluations, and industry comparisons, this research clarifies the efficiency, effectiveness, and challenges encountered by Novotel Chennai Chamiers Road in managing its accounts payable and receivable. The results of this study enhance the current understanding of financial management.

Keywords: Accounts payable; Accounts receivable; Novotel; Financial management

1. Introduction

Accounts payable and accounts receivable are essential elements of a company's financial framework, representing the obligations and resources associated with its dealings with suppliers and customers, respectively. Grasping these concepts is vital for proficient financial management and informed decision-making within an organization.

Accounts Payable:

Accounts payable (AP) denote the sums a company owes to its suppliers or vendors for goods and services acquired on credit. When a company obtains goods or services without immediate payment, the related amount is recorded as a liability under accounts payable. AP typically results from purchases made under credit terms, which permit the company to postpone payment until a specified future date, often dictated by contractual agreements or standard payment conditions.

AP transactions encompass processes such as receiving invoices, verifying them, approving payments,

and executing the payment. Effectively managing accounts payable is essential for fostering strong supplier relationships, optimizing cash flow, and ensuring timely payments to prevent penalties or disruptions in the supply chain.

Accounts Receivable

Accounts Receivable (AR) refers to the sums that a company is owed by its customers for goods or services delivered on credit. When a company provides goods or services without immediate payment, the amount is recorded as an asset under accounts receivable. AR typically results from credit sales, which allow customers to settle their payments at a later date, usually within a defined credit period.

The management of AR includes processes such as order fulfilment, invoicing, collection, and reconciliation. Effective management of accounts receivable is crucial for enhancing cash flow, minimizing the risk of bad debts or late payments, and maintaining strong customer relationships through prompt and precise billing and collection methods. Both accounts payable and accounts receivable are vital for a company's working capital management. While accounts payable are short-term liabilities that must be managed carefully to prevent liquidity issues, accounts receivable represents potential cash inflows that must be collected efficiently to ensure liquidity and support ongoing business operations.

In conclusion, accounts payable and accounts receivable are crucial elements of a company's financial framework, representing its commitments to suppliers and its rights to payments from customers. Grasping and efficiently overseeing these factors is vital for maintaining financial stability, liquidity, and long-term growth.

Study Objectives

Analyse Existing Procedures: Conduct a detailed review of the current methods used for managing accounts payable and receivable at Manufacturing Company. This should cover aspects such as invoicing, payment processing, credit terms, and collection strategies.

Identify Obstacles: Determine any obstacles or inefficiencies within the current framework that could impede the effective management of accounts payable and receivable. This may include examining delays in payment processing, invoicing errors, or collection challenges.

Evaluate Financial Consequences: Assess how the existing practices affect Manufacturing Company's cash flow, working capital, and overall financial health. Recognize the role that effective management of accounts payable and receivable plays in enhancing the company's profitability.

Benchmarking and Best Practices: Analyze Manufacturing Company's practices against industry standards and identify successful strategies utilized by other organizations in similar fields. This comparison will serve as a foundation for suggesting enhancements and implementing proven strategies.

Study Scope: The study's scope regarding accounts payable and receivable includes a thorough investigation and analysis of the financial transactions and processes related to managing a business's liabilities and assets. This scope covers various aspects, including but not limited to:

Analysis of Transaction Recording: This section focuses on the exploration of techniques and systems utilized for the precise documentation of accounts payable and accounts receivable transactions within the organization's financial records.

Evaluation of Policies and Procedures: This part assesses the current policies and procedures that govern the management of accounts payable and accounts receivable, ensuring they are efficient, compliant with regulations, and aligned with the organization's goals.

Cash Flow Assessment: This analysis reviews how accounts payable and accounts receivable influence the organization's overall cash flow, pinpointing opportunities for optimization and enhancement to sustain sufficient liquidity.

Credit Policy Analysis: This section investigates the credit policies and practices associated with accounts receivable, aiming to reduce credit risks and guarantee the prompt collection of outstanding debts.

Vendor and Customer Relationship Exploration: This part delves into the dynamics between the organization and its vendors (related to accounts payable) and customers (related to accounts receivable), covering negotiation terms, communication methods, and mechanisms for resolving disputes.

Technology Integration Review: This section evaluates the incorporation of technological solutions, including accounting software, automation tools, and electronic payment systems, to streamline operations and improve the efficiency of accounts payable and accounts receivable functions.

Financial Reporting and Evaluation: An examination of financial reporting and analysis involves assessing the financial statements and reports derived from accounts payable and accounts receivable data. This process aims to deliver insights regarding the organization's financial performance, liquidity status, and operational effectiveness.

Evaluation of Internal Controls and Compliance: This section focuses on examining the internal control systems established to protect assets, deter fraud, and guarantee adherence to applicable accounting standards, regulations, and internal policies.

Risk Management: This involves recognizing potential risks linked to accounts payable and accounts receivable processes, such as credit risk, liquidity risk, and operational risk, and formulating effective strategies to mitigate these risks.

Continuous Improvement Initiatives: This entails suggesting improvements for the accounts payable and accounts receivable processes, which may include implementing best practices, developing training programs, and establishing performance monitoring systems. The outlined study scope offers a comprehensive framework for conducting thorough analysis and research on the management of accounts payable and accounts receivable, with the goal of enhancing organizational efficiency, financial performance, and risk management capabilities.

Importance of the Study: The importance of analysing accounts payable and accounts receivable stems from their essential functions in a company's financial operations:

Cash Flow Management: Accounts payable and accounts receivable significantly influence a company's cash flow. Proper management of these accounts is crucial for maintaining sufficient liquidity to fulfil short-term obligations and pursue growth opportunities.

Working Capital Management: Both accounts payable and accounts receivable are vital elements of working capital. Efficient management of these accounts can optimize working capital, ensuring the company has adequate funds for its daily operations.

Evaluating Financial Stability: By examining accounts payable and accounts receivable, analysts can gauge a company's financial stability. A high turnover ratio in accounts payable may reflect effective management of short-term liabilities, while a high turnover ratio in accounts receivable could indicate efficiency in collecting customer payments.

Relationship Management: The management of accounts payable and accounts receivable is integral to a company's interactions with suppliers and customers. Proper handling of these accounts can enhance these relationships, resulting in improved terms and conditions.

Informed Decision Making: A thorough understanding of accounts payable and accounts receivable dynamics enables management to make well-informed decisions. For instance, reviewing accounts payable aging reports can reveal chances to negotiate more favourable payment terms with suppliers.

Benefits of Accounts Payable (AP):

Effective Management of Cash Flow: Accounts payable play a crucial role in helping businesses manage their cash flow by creating a buffer period between the receipt of goods or services and the actual payment. This flexibility allows organizations to strategically allocate their funds and enhance their working capital.

Improved Supplier Relations: Timely and reliable payments of accounts payable contribute to building strong relationships with suppliers. Nurturing these relationships can result in advantages like better credit terms, discounts for early payments, and prioritized access to products and services.

Operational Flexibility: Accounts payable allow companies to obtain essential goods and services without the need for immediate cash payment. This capability is especially beneficial for businesses experiencing variable cash flows or seasonal demand, as it enables them to fulfill their operational requirements without putting financial pressure on themselves.

Credit Utilization: By taking advantage of accounts payable, companies can effectively use the trade credit provided by suppliers. This strategy helps them conserve their own funds for other strategic projects or investment opportunities, making the most of the credit terms offered by suppliers to foster business expansion.

Expense Tracking and Budgeting: Accounts payable offer a structured approach to monitoring expenses and managing budgets. By keeping precise records of payables, companies can track their financial obligations, evaluate spending trends, and make well-informed decisions to manage costs and enhance financial performance.

Drawbacks of Accounts Payable (AP): Interest and Penalties: Interest and penalties associated with accounts payable arise from additional fees incurred when payments to suppliers or vendors are not made within the agreed-upon timeframe. These fees are generally imposed to offset the costs associated with the delay or serve as a punitive measure.

Supplier Relations Strain: The accounts payable process may suffer from strained supplier relationships due to issues such as delayed payments, breakdowns in communication, disputes regarding invoices, unmet expectations, and a lack of collaboration.

Impact on Credit Rating: Delayed payments or outstanding amounts in accounts payable can adversely affect a company's credit rating. Such delays may indicate potential financial instability or inefficiencies in cash flow management, raising concerns among creditors and lenders.

Administrative Burden: The administrative burden in accounts payable encompasses the time, effort, and resources necessary to manage and process invoices, payments, and related tasks within an organization. This burden often results from manual data entry, reliance on paper-based processes, complex approval workflows, and reconciliations, leading to inefficiencies, errors, and delays in payment processing.

2. Literature Review

This section presents a summary of existing research related to receivable management. The literature review aims to enhance the understanding of the research topics and identify existing gaps:

JACK & MATTHEW (2022): -

The article emphasizes that actively managing accounts receivable is the most effective way to recover them, suggesting that proper management can help avoid complications in the recovery process altogether.

PADACHI K (2020): -

This research focuses on trends in working capital management and its effects on firm performance. The findings suggest low profitability before interest and tax, revealing a negative correlation between the

conversion cycle and inventory days with earnings, while accounts payable and receivable days show a positive relationship with earnings.

Wallis (2022):

Notes that the U.S. economy is currently experiencing considerable strain. In this context, receiver managers are increasingly focused on ensuring the viability of their businesses. While there may be little motivation to maintain revenue levels, it is critical to implement stringent safety measures regarding credit authorization. Effectively managing this asset, which is often the largest on the balance sheet, is vital in today's economic climate.

According to Strischek (2022):

A contractor's receivables play a crucial role in both cash flow and working capital. These receivables are the primary source of cash inflow, while payables account for a significant portion of cash outflow. A construction firm's capacity to offer credit to clients hinges on the willingness of its trade creditors to defer their payments until the contractor collects its progress billing receivables. Maintaining a careful equilibrium between receivables and payables is essential for the contractor's financial success.

3. Research Methodology

Research methodology refers to the organized techniques and strategies that researchers employ to collect, analyse, and interpret data to address specific research questions. It includes the overall strategy, design, and methods utilized in a research project. The methodology provides a structured framework for conducting research, which encompasses participant selection, data collection techniques, data analysis methods, and the interpretation of results. This framework is essential for ensuring the validity, reliability, and credibility of the research findings.

Source Of Data: The primary source of data for this study was secondary data.

Secondary Data: The secondary data was gathered from various sources, including articles published in newspapers, websites, magazines, and academic journals.

Sampling Design: The data collected is original and consists of first-hand information. A sample of 100 business respondents was selected through the internet using a simple random sampling method.

Framework Analysis: The collected information was analysed using a statistical tool known as Percentage Analysis.

4. Data analysis and interpretation

Data analysis involves examining, transforming, and modelling data to uncover valuable insights, make recommendations, draw conclusions, and facilitate decision-making processes. It encompasses a variety of techniques across different fields such as business, science, and social sciences, offering diverse perspectives and methodologies. This analysis can provide insights into the efficiency, fairness, and effectiveness of accounts payable (AP) and accounts receivable (AR) practices across various sectors, affecting both individuals and organizations. Statistical tools like Percentage Analysis are employed to evaluate the gathered data, while diagrams, tables, and charts present a comprehensive overview, aiding in the summarization and systematic display of the information.

5. Overseeing individual finances and accounts

Table 1:

Options	No. of Responses	Percentage
Using pen and paper manually Utilizing	19	19%
Utilizing spreadsheet tools (e.g., Excel or Google Sheets)	51	51%
Employing finance management software	16	16%
Not managing personal finances at all	14	14%
Total	100	100%

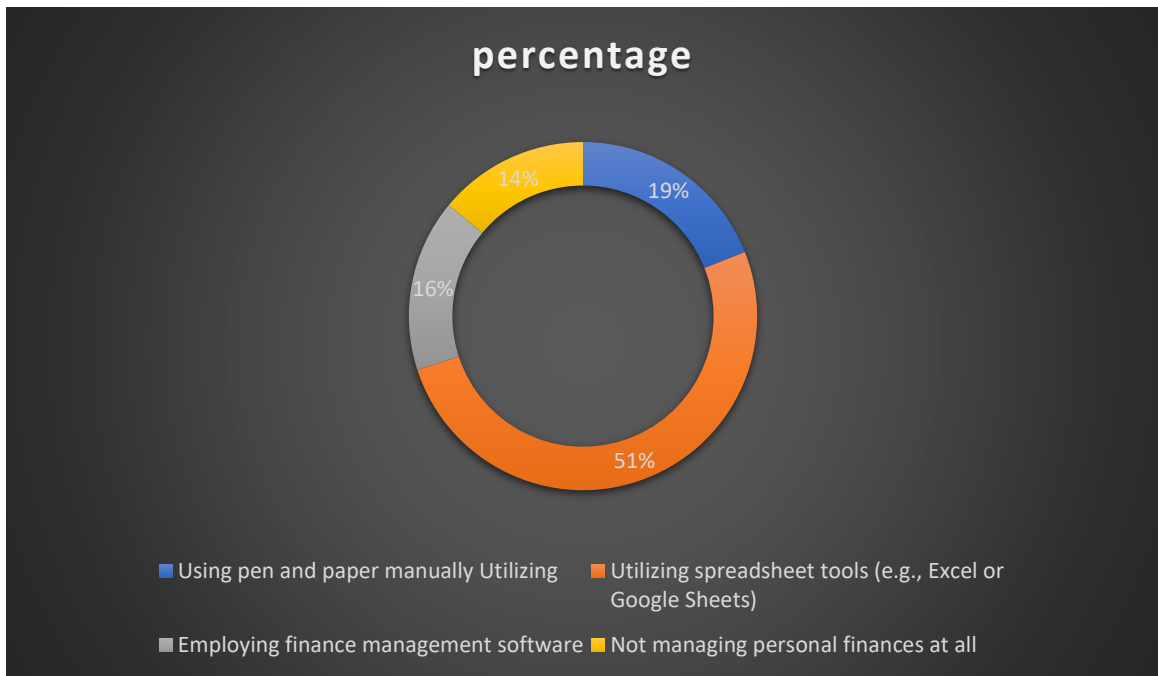


Figure 1: Count of responses and their corresponding percentages

Interpretation

The majority of participants, accounting for 51%, utilize spreadsheet applications such as Excel or Google Sheets for managing their personal finances and accounts. In contrast, 19% of respondents rely on manual methods with pen and paper, while 14% employ personal finance management software. Alarming, 16% of individuals are not actively managing their finances, which is concerning.

Table 2:

Method	No. of Responses	Percentage
Payments made immediately after receiving the invoice	24	24%
Payments managed using a tracking and prioritization system based on due dates	38	38%
Payments made on or just before the due date	27	27%
Not applicable – Respondents not involved in handling invoices	11	11%
Total	100	100%

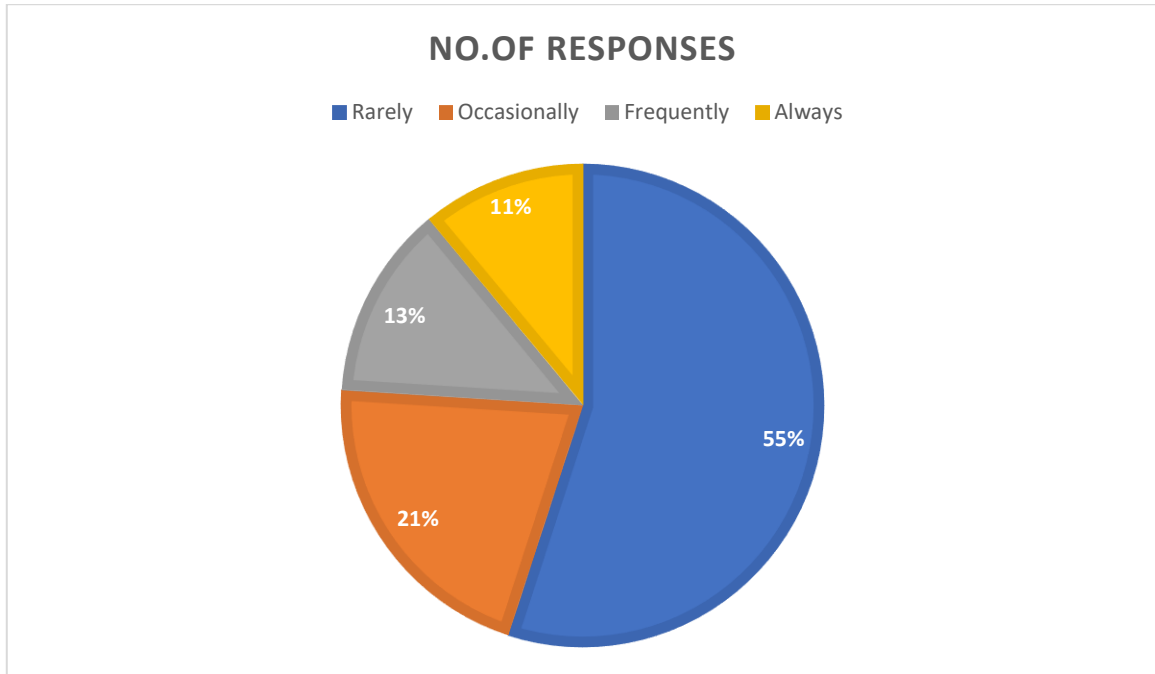


Figure 2: Count of responses and their corresponding percentages

Interpretation

IMMEDIATE PAYMENT: 24% of participants prefer to settle invoices right upon receipt, showing a tendency for quick payments and a wish to foster positive relationships with vendors.

WAITING FOR DUE DATE: 27% of participants choose to wait until the invoice's due date to make their payments, reflecting a strategy focused on cash flow management and timely payments to prevent late fees.

SYSTEMATIC TRACKING: 38% of respondents have established a system to monitor and prioritize payments according to their due dates, indicating a more organized method of managing accounts to ensure no payments are missed.

NOT INVOLVED: 11% of respondents stated that they do not manage invoices, implying they are not directly engaged in accounts payable activities.

6. Findings

Issue Identified: Delay in Accounts Payable Processing

A review of the accounts payable system highlights significant delays in handling supplier invoices and completing payments. These delays have led to the loss of early payment discount opportunities and have negatively impacted on relationships with suppliers.

Proposed Solution: Adoption of Automated Invoice Processing Technology

To enhance efficiency in the accounts payable function, the organization should consider implementing automated systems for invoice handling. These technologies can help speed up the steps involved in reviewing, approving, and paying invoices, while also minimizing the chances of human error. Furthermore,

integrating digital payment solutions can ensure faster transaction completion, allowing the company to benefit from early payment incentives and strengthen supplier partnerships.

Finding: Prolonged Receivables Collection Period (High DSO)

Observation:

The review of receivables management shows that the average time taken by customers to settle their invoices is longer than desired. This extended collection period is resulting in slower cash inflows, putting strain on available funds and increasing the company's reliance on additional working capital to meet operational needs.

Suggestion: Improve Credit Control and Collection Strategies

To address delays in customer payments, it's important to reinforce credit evaluation procedures by carefully assessing a customer's creditworthiness before offering payment terms. Develop and apply clear credit policies, ensuring consistent enforcement across all accounts. Introduce early payment benefits—such as small discounts or loyalty incentives—to motivate customers to pay sooner. In addition, maintain regular communication and proactive follow-ups with clients who have outstanding balances to accelerate collections and help lower the Days Sales Outstanding (DSO) metric.

Finding:

Errors or Omissions in Recording Payables and Receivables

Observation:

An assessment of the company's financial records reveals inconsistencies and missing data in both accounts payable and accounts receivable entries. These issues are contributing to inaccurate financial reports and may result in a misleading representation of the organization's actual financial status.

Suggestion:

Reinforce Controls and Reconciliation Processes

To improve the accuracy of financial data, it's essential to implement strong internal checks for all transactions related to payables and receivables. Clearly define the responsibilities of team members involved in recording and reconciling these transactions. Schedule periodic reviews and internal audits to detect and resolve discrepancies quickly. Additionally, provide ongoing training for staff to ensure they follow proper accounting procedures and maintain compliance with current financial reporting standards.

7. Conclusion

To ensure the reliability of financial records, it is crucial to thoroughly review and validate all sales transactions within the accounts receivable ledger. This includes matching the ledger entries with customer invoices and sales documentation to confirm consistency. Any irregularities, such as overdue balances or incorrect entries, should be promptly investigated and resolved.

Generating aging reports helps in tracking outstanding receivables over time and identifying potential collection challenges. It's also important to regularly review the provision for doubtful debts and adjust it as needed to reflect realistic expectations of recoverable amounts. In addition, any customer advances or unearned revenue must be properly recorded and reported to maintain accurate liability recognition.

Overall, the final steps in managing both accounts payable and accounts receivable involve ensuring that all records are accurate, complete, and compliant with financial standards. Doing so supports effective cash

flow management, improves financial transparency, and helps sustain strong, trust-based relationships with both suppliers and customers.

Declaration of Conflicting Interests

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